



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

September 14, 2004

The Morris Review
Room GC/08
1 Horse Guards Road
London SW1A 2HQ
United Kingdom
(Email: morris.review@hm-treasury.x.gsi.gov.uk)

Dear Sir,

Re: Morris Review of the Actuarial Profession

The International Actuarial Association (IAA) appreciates the opportunity given to comment on the Morris Review of the Actuarial Profession released March 2004. I am very pleased to submit the attached public statement of the IAA, a response prepared through our Committee on Professionalism, the members of which are listed in an appendix to this statement by name and association, in collaboration with member associations of the IAA. The Full Member associations of the IAA are also listed in an appendix to this statement.

If upon reading these comments you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the Professionalism Committee, Jean-Louis Massé, or any of the other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Yves Guérard
Secretary General

Attachments:

IAIS Guidance Paper – The Use of Actuaries as Part of a Supervisory Model
Back to Basics: Critical Financial Sector Professions Require in the Aftermath of an Asset Bubble
IAA Paper – The Function of the Actuary in Prudential Supervision

cc: Jean-Louis Massé, Chairperson, Professionalism Committee

**A PUBLIC STATEMENT OF THE INTERNATIONAL ACTUARIAL ASSOCIATION
IN RESPONSE TO THE MORRIS REVIEW**

September 14, 2004

The International Actuarial Association (IAA) appreciates this opportunity to respond to the *Morris Review of the Actuarial Profession: A Consultation Document* (the *Morris Review*). The IAA is an international association of actuarial associations, with fifty full member associations, twenty-four associate member associations, and several institutional members. The members of these actuarial associations account for over thirty-five thousand actuaries in over seventy countries, which represents more than ninety-five percent of all actuaries around the world.

The IAA is structured as follows. Its Council is the governing body. Each full member association has a right to vote at Council. The limit of four votes to the largest associations and the rule of an eighty percent positive vote for key decisions provide a delicate equilibrium in the representation of various points of view. The president is elected for a one-year period and is usually selected to assure that all large regions around the world are represented on a three-year rotation basis. Committee chairpersons are nominated for a fixed term. Full member associations can nominate representatives to most committees, subject to Council approval.

The IAA has a number of committees such as education, financial risks, insurance accounting, insurance regulation and solvency, pensions, and employee benefits, professionalism, social security, and supranational relations. The IAA also has six member-focused sections, namely, the section for Actuarial Studies In Non-life Insurance (ASTIN), the section for Actuarial Approach for Financial Risks (AFIR), the International Association of Consulting Actuaries (IACA), the IAA Health section (IAAHS), the Pensions, Benefits, Social Security section (PBSS) and the Actuaries Without Frontiers section (AWF). The IAA statutes embody a principle of “subsidiarity”, which means that the IAA’s role and activities complement those of its member associations.

The IAA’s stated objectives include promotion of “high standards of professionalism within the worldwide actuarial profession to ensure that the public interest is served”. To that end, the IAA requires its full member associations to have, among other things: a code of professional conduct for the association’s members that emphasizes integrity and competence to practice; a formal discipline process; and an appropriate due process for the adoption of standards of practice. At a minimum, member associations’ codes of conduct must be at least as rigorous and comprehensive as the Principles of the “Groupe Consultatif”, which is similar to the rules and code of professional conduct of the Canadian and U.S. professions and those of other countries. The IAA also maintains educational guidelines to assist its member associations to establish appropriate educational requirements for their members.¹ The IAA routinely issues public statements on topics with actuarial implications, often in response to requests from international bodies.

¹ Additional information about the IAA appears on our Web site, www.actuaries.org.

The IAA is committed to supporting effective supervision of all financial institutions, including insurance companies, pension schemes (public and private) and social security programs. The IAA works directly with the international community of insurance and other relevant supervisors to foster strong regulatory and solvency management through the adoption and implementation of legislation and regulation that establishes and maintains appropriate roles for actuaries in the oversight of and advice to financial institutions. The IAA also works with its member associations to encourage promulgation and enforcement of conduct, qualification and practice standards that promote a high level of professionalism for all actuaries, including those who fulfil statutory roles.

The financial systems of countries vary significantly around the world depending on a variety of factors, including: the size and strength of a nation's economy; the complexity of its financial markets; the sophistication of its financial reporting systems; its cultural values; availability of education for its aspiring professionals; and the structure of its legal system. Typically, well-developed economies and strong regulatory systems make greater and more sophisticated use of actuaries than do countries with developing economies in some cases and less effective governmental supervision of financial institutions. Consequently, actuaries play significantly different roles around the world within their countries' financial systems.

This response is structured with the intent to be consistent with the *Morris Review* consultative document, and is intended to provide an overall response to the consultative document, rather than specific answers to each of its questions. The IAA defers to its member associations to respond to the *Morris Review*'s specific questions with information about actuarial practice in their respective countries and, particularly, to the Institute and Faculty of Actuaries to provide information specific to U.K. practice. Nevertheless, we would be pleased to provide further discussion of the issues referred to or that are relevant to the *Morris Review*.

Chapter 1 — The Role of Actuaries, the Profession and the Actuarial Services Market

The Scope of the Actuarial Role

The attached IAA paper titled, *The Function of the Actuary in Prudential Supervision*, provides an overview of the IAA's views on the scope of the roles of actuaries in insurance company supervision.² Particularly in developed countries with well-established professional associations, actuaries are trained in the evaluation of the financial implications of contingent events, techniques and application of: actuarial and financial mathematics; probability and mathematical statistics; fundamental concepts of both microeconomics and macroeconomics; accounting and financial statements of companies; principles and application of modelling, at times stochastic modelling (particularly of risks associated with actuarial work); application of actuarial principles to the valuation, appraisal, selection and management of investments; application of principles of actuarial planning and control to the operation of risk-related programs of financial entities; professionalism; capital management; risk analysis; and principles of company management. Their training provides actuaries with a uniquely sophisticated and broad understanding of the risks associated with various types of insurance that, properly applied, can

² This paper was presented to the International Association of Insurance Supervisors (IAIS) in late 2002.

greatly enhance the ability of insurers to design, market and deliver products that can appropriately serve consumers while maintaining the solvency of individual companies and the insurance industry as a whole.

In many countries, actuaries are asked to fulfil specific statutory roles with respect to the solvency of insurance companies or the suitability of particular insurance products. The International Association of Insurance Supervisors (IAIS) addressed the desirability of reserving statutory roles for actuaries in its October 2003 paper, *The Use of Actuaries as Part of a Supervisory Model* (attached, and referred to hereinafter as the *IAIS paper*).³ The *IAIS paper* comes to a number of conclusions that are relevant to the *Morris Review*, beginning with its initial conclusion that the application of actuarial expertise “is a key component in the operation of insurers, insurance markets and insurance supervisory authorities”. The paper demonstrates that in many countries insurance regulators who have worked with actuaries in reserved statutory roles acknowledge the significant value actuaries bring to the operation and supervision of the insurance industry. We agree with the IAIS’s observations in this regard.

It is important for actuaries functioning in reserved statutory roles to have appropriate oversight, with a statutory model that defines and limits the responsibilities and rights of the actuary, while requiring participation of management and other professionals can provide such oversight. While actuaries bring to the insurance industry valuable and in many cases unique skills and experience, they typically do not have direct control or final authority over all actions used to protect the interests of policyholders and beneficiaries, either with respect to company solvency or with respect to policyholders’ reasonable expectations generated by a company’s marketing materials or exercise of contractual discretion.

Company management, who remains primarily responsible for the business practices and success of a financial institution, can benefit from actuarial advice. In addition, their reliance on actuaries can be far more beneficial when those actuaries work closely with other professionals who advise management through the application of skills that complement those of the actuary. Further, actuaries’ education, absent other training or work experience, typically does not qualify them to practice in other profession’s fields such as accounting, economics, investment counselling, or law without other applicable education and experience. The *IAIS paper* recognizes that, when reserving statutory roles for actuaries, it is important to provide the actuary with clearly defined tasks and responsibilities as well as rights and obligations under law, and we believe the roles of all professionals advising a company should be similarly defined. The *IAIS paper* also concludes that the roles of actuaries and external auditors, and the relationships between them, are enhanced by clear definition of their respective responsibilities.

The importance of effective regulatory involvement must also be stressed. It is important that the roles and responsibilities of the insurance regulator be clearly defined. As the *IAIS paper* indicates, when the actuary functions in a statutory role, “the supervisor should not merely accept the work of the actuary without further scrutiny, but should have access to actuarial resources to review and interpret the advice of the responsible actuary.” Thus, while supervisors benefit from the expertise of actuaries functioning in statutory roles, the supervisors should retain the

³ The IAIS’s conclusions are listed in the Appendix to this document.

responsibility to understand and respond to that advice, particularly in countries with developed economies and well-developed regulatory infrastructures.

Peer review has developed at different speeds in different countries, with different approaches used among the actuarial practices. The IAA has only recently started collecting details of various practices among national associations and has not yet developed a generally accepted view on the topic.

We refer later to the contributions of actuaries in the areas of pensions, social security, and risk management. Although there are differences in the way these areas are structured and regulated, many of the comments made above are equally applicable to other areas in which actuaries practice.

Accountability of Actuaries

Actuaries belonging to full member associations of the IAA are subject to professional codes of conduct that specifically require the actuary to provide professional services with integrity, skill and care consistent with the public interest. These codes also address conflicts of interest. Failure to comply with this requirement subjects the actuary to the discipline process of the actuary's national association.

Actuaries are accountable to their professional associations if they act without integrity, skill and care, and they are in addition accountable to their clients, employers (including pension sponsors and administrators) and regulatory supervisors. If actuaries act consistently with their duty of integrity, skill and care on behalf of honest and accountable management and under the oversight of skilled regulators, they are unlikely to act contrary to the public interest. However, if an actuary negligently or intentionally engages in misconduct and, thereby, causes foreseeable injury to third parties to whom the actuary owes a legal duty, the actuary faces appropriate legal action as well as penalties from the actuary's membership organization.

The actuarial profession also has a collective responsibility to the public interest that is served both by setting and enforcing high professional standards for its members and by advising public policy makers when laws, regulations, or customary practices can have negative actuarial implications that could be harmful to the public interest.

The Profession's Public Policy Role

The actuarial profession maintains relationships with makers of public policy in order to expand the horizons of actuarial knowledge, to promote the work of the actuarial profession, encourage innovation, and explain to public policy makers the actuarial implications of proposals that will affect the public interest. Many of the IAA's member associations engage in ongoing dialogue with national public policy makers and the IAA itself actively cultivates relationships and dialogue with public policy makers at the international level. The IAA has relationships with many international and supranational organizations, for example:

Asian Development Bank	International Monetary Fund
Financial Accounting Standards Board	International Social Security Association
International Accounting Standards Board	Organisation for Economic Cooperation and Development
International Assn. of Insurance Supervisors	United Nations Organisation
International Federation of Accountants	World Bank
International Labour Organization	World Health Organisation

These contacts have permitted the IAA to work with public policy makers at the international level on a number of projects, including:

- ◆ With the IAIS, preparation of a report on insurer solvency assessment;
- ◆ Discussion of the solvency II project of the European Union Commission and the Committee of European Insurance and Occupational Pension Supervisors;
- ◆ Issuance of practice guidelines for Social Security programs worldwide that have since been presented to the International Social Security Association;
- ◆ Participation in the International Accounting Standards Board's work to develop international accounting standards for insurance and pensions;
- ◆ With the World Trade Organization, promotion of the application of professional actuarial services across national boundaries;⁴ and
- ◆ With the Organisation for Economic Cooperation and Development on assisting with the Core Principles, Recommendations and Guidelines for pension provisions.

All of these activities serve the public good while promoting the use of actuarial services.

Entry Into the Profession

Although a handful of large international actuarial consulting firms hire a sizeable proportion of actuaries around the world, at least an equal number work for insurance and re-insurance companies, funeral insurance companies, pension and health plans, social security organizations, governments, universities, or as self-employed consultants. We have seen no evidence that large consulting firms have any significant impact on the content of actuarial education. Rather, the education guidelines developed by the IAA and the syllabi of national actuarial organizations are designed to give actuaries the education needed to meet the demands of actuarial practice. It can take a significant length of time to complete the education process.

Our member associations continually seek to maintain a proper balance between academic and practical experience, an appropriate breadth of topics in the entry syllabus, and the extent of specialization consistent with providing valuable professional services to their members' clients,

⁴ The IAA has developed a list of other organizations with which it is seeking to further develop relationships. For a fuller discussion of the IAA's public policy activities and contact lists, please refer to our Web site, www.actuaries.org.

employers and the ultimate consumers of actuarial work products. However, given the complexity and importance of actuarial science and the potential for significant injury to corporate entities and to individual members of the public if actuaries are not properly trained, it is essential that actuaries be thoroughly educated in all of the areas needed for successful practice.

Actuarial education is approached several ways around the world, through examinations by sponsoring associations, university-based education, or both. In recent years, the IAA has been working on minimum core syllabus guidelines for full member associations. These guidelines reflect the desire of the profession to set high standards of education, as well as the need to have a sufficient breadth and depth of training for actuaries to meet the needs of current and future employers of actuaries. We expect to see universities in many countries become increasingly involved with actuarial entry-level and continuing education, and note with interest the development of university courses over the Internet. Recognizing the particular needs of emerging market economies, the IAA has created a fund financed almost exclusively by actuarial associations and dedicated to the support of international activities promoting the actuarial education and the profession in actuarially developing countries.

As important as entry-level education is to the future practice of the actuary, continuing professional education can be just as, if not more, important. Keeping current with new development in actuarial science and in the industry in which actuarial services are provided is a necessary requirement for the provision of valuable professional services. All IAA member associations play a role in providing or encouraging their members to participate in such activities.

The Market for Actuarial Services

The market for actuarial services differs from country to country, but there are a few developments that may significantly impact the demand for actuaries over time:

- ◆ International accounting standards for financial institutions;
- ◆ International norms for measuring insurer solvency;
- ◆ International standards for funding and accounting for pension and benefit plans;
- ◆ International guidelines for the review of Social Security programs;
- ◆ Increased ability of professionals to practise across national borders;
- ◆ Increased use of actuarial services by supranational organizations;
- ◆ Convergence in the worldwide actuarial profession of standards of conduct, practice and qualification as well as educational requirements;
- ◆ Convergence of insurance and banking (ex. Bancassurance);
- ◆ An ageing population, and
- ◆ Technological developments that allow the development of more sophisticated models to measure risks.

We have observed a worldwide consolidation that is reducing the number of large professional firms, not only of actuaries but also of accountants, lawyers, and other professionals. New smaller firms are created and the market for actuarial services continues to expand. The IAA is not aware of significant restrictions on competition for actuarial services or restrictions to “consumer” switching between actuarial service providers.

Both in-house employees and external advisers provide a broad range of actuarial advice to their employers or clients. A pension plan sponsor may hire an external actuary for specialized projects (e.g., comparative studies or particular national or international expertise) and an internal actuary for more routine work. An insurer may hire an internal actuary because its product needs are highly specialized. An external actuary may be hired to provide a ‘second opinion’ or for his/her wider experience in similar projects. A client may prefer an internal actuary because there is enough work for an actuary full time and it increases the level of competence and professionalism internally in dealings with governments, boards of directors, management, unions, and other publics. We are not aware of systemic difficulties experienced by employers in recruiting in-house actuaries.

Strong competition for clients exists between actuarial firms, so of necessity, actuaries must show competence, innovation, and ability to serve clients satisfactorily. The codes of conduct limit practices that harm the public interest. Nevertheless, we do not believe the profession’s rules or conventions inappropriately restrain competition or violate the antitrust or competition laws of the countries in which actuaries practise.

International Comparisons

As can be seen, the actuarial profession is truly international. Among IAA members, the U.K. actuarial profession is well respected within the IAA for its education and professionalism and its members have taken a leading role in many of the IAA’s activities. It is a recognized world leader in the development of actuarial science and education.

Certain actuarial functions can readily be performed across national boundaries. Other functions, typically those prescribed by statute, are best performed by an actuary with specific knowledge of local laws, professional standards, customs, and language.

The IAA has developed model mutual recognition agreements and mutual discipline agreements to facilitate the ability of actuaries to practice across national boundaries. The Groupe Consultatif Mutual Recognition Agreement covers the actuarial profession throughout the European Union plus some additional countries, and a number of bilateral mutual recognition agreements are already in place between associations from the U.K., Australia, Canada, India, Ireland and the U.S. Most actuaries from South Africa are members of the U.K. profession. We expect the number of mutual recognition agreements to grow substantially once greater convergence in actuarial education has been achieved post-2005. All of these developments encourage competition in actuarial services by facilitating cross-border practice.

As the *Morris Review* examines the international actuarial profession, it may wish to examine: the quality and quantity of standards of conduct, practice and qualification in various countries; the regulatory responsibilities and protection under the law afforded the appointed actuary; the rapport between the actuarial profession, the accounting profession, the auditing profession, the industry and the regulators; the private and confidential guidance offered to the practising actuary (insurance, pensions and other fields) by the profession; and the actuarial education delivery system.

Other Professions

The IAA encourages convergence of national practices around the globe in the financial services industry, and agrees that a study of best practices across professions could be extremely beneficial. It should be recognized that most other professions are much larger and may be differently constituted from the actuarial profession because of the nature of their respective professional responsibilities.

Forthcoming European Union directives on solvency and International Financial Reporting Standards are examples of international developments that will impact the insurance industry practices and those of its professionals, including actuaries and regulators. The outcome of these discussions is likely to bring something new for all and the sharing of best ideas and practices is likely to be an improvement in most instances.

Chapter 2 — The Current Regulatory Framework of the Actuarial Profession

The Regulatory Role of the Profession

The *IAIS paper* thoroughly addresses the issues to be considered regarding the statutory role of actuaries. Its main conclusions are listed in appendix. Different countries have different legal and regulatory systems. The attached paper by World Bank author Michael Pomerleano titled, *Back to Basics: Critical Financial Sector Professions Required in the Aftermath of an Asset Bubble*, addresses the effects various legal systems have on the establishment of robust professions.

We are well aware that a code of conduct carries little weight unless the profession vigorously enforces it. Other means of enforcing good professional conduct certainly exist (such as the courts), but most actuaries view the censure of their peers to be a very significant penalty that impacts not only their future careers, employment opportunities and reputation in business dealings but the esteem in which they are held in the actuarial community. Consequently, the existence of self-regulation can have a significant positive impact on actuaries' conduct.

The IAA believes that professional bodies should continue to regulate themselves and, as mentioned in its paper referred to earlier, *The Function of the Actuary in Prudential Supervision*, the IAA encourages local actuarial associations to develop codes of conduct, discipline processes and nation specific standards of practice for actuaries working in their countries.

The Role of the Appointed Actuary

The appointed actuary plays a unique and important role in protecting the solvency of an insurer. The actuary needs to evaluate the liabilities and the assets in order to provide an opinion on the overall financial condition of the insurer. It can be difficult for non-executive directors of insurers to understand the complexities of actuarial analysis. It is therefore critical that actuaries hone their communication skills to educate intelligent laypeople, whether members of senior management or company directors, to understand complex actuarial matters in order to make judicious business decisions for the good of the various stakeholders. It may also be beneficial for such individuals to obtain some background in actuarial concepts. Actuaries normally should be able to explain their work so that an intelligent layperson acting with due diligence can understand the broad concepts, conclusions and reasoning involved even if the specific technical details of the work are beyond the skills of the actuary's audience.

Regarding accounting for insurance liabilities, we would like to point out that we expect the IASB to develop within the next several years International Financial Reporting Standards based on the principles of the prospective value for both assets and liabilities, sometimes referred to as fair value. We believe that this will be relevant to the way in which insurance supervisors might consider developing reporting methods in the future.

The Role of the Scheme Actuary

The training that qualifies actuaries to provide unique services to insurers also qualifies them to provide services to pension and benefit plans as well as social security programs, and it is appropriate to reserve a statutory role for them to do so. We believe that the obligation for pension actuaries to communicate with pension trustees and sponsors is comparable to the obligation for insurance actuaries. We note that, worldwide, peer review appears to be less common in pension practice than it is in the insurance industry, particularly in countries with smaller actuarial associations, and that it may be beneficial to encourage its use. The *Morris Review* may wish to note developments in this area in some jurisdictions, such as Austria, where external peer review is mandatory for pension fund certificates, or Australia and the United States, where peer review of the work of pension actuaries is being introduced on a firm-by-firm basis.

General Insurance and the Role of the Syndicate Actuary

Due to the ever-increasing complexity of liability valuation, asset/liability management, reinsurance arrangements, and capital management, as well as the emergence of new risks such as terrorism, we believe there is a need for a reserved role for the actuary in general insurance. Indeed, such statutory roles have been reserved for general insurance actuaries in some jurisdictions, for example, Australia, Canada, Ireland, and the United States. Although, as the *IAIS paper* observes, there has been a longer tradition of actuarial involvement in life insurance than general insurance, the *IAIS paper* draws little distinction between the two practices in contemplating a statutory role for the actuary in insurance.

Investment

Actuaries are increasingly bringing their risk identification, quantification, and management skills to investments, a new practice area for actuaries in many countries. We believe that it is appropriate for the profession to promote skills in investment and financial risk in actuaries worldwide. One of the six sections of the IAA, named Actuarial Approach for Financial Risks (AFIR), has the objective of promoting actuarial research in financial risks and problems.

Maintenance of Professional Competence

Many of the IAA's member associations have had continuing professional development programs in place for some time. We recognize the crucial importance of maintaining professional skills and keeping current with advances in actuarial science and we believe it is essential for actuaries to participate actively in continuing professional development on an ongoing basis. The IAA encourages its member associations to promote continuing professional development and will work to facilitate communication about continuing education opportunities available to actuaries around the world.

Whistle-blowing

An actuary functioning in a statutory role may find a Board of Directors less than responsive to actuarial advice. In such a situation, the *IAIS paper* observes that it may be appropriate to require the actuary to express his or her concerns to the supervisor as a last resort when all other avenues for persuading the insurer's management have been exhausted. As the IAIS states, "should the law require such regulatory notification, it is a necessary part of this regulatory process that any responsible actuary forced to take this course should have protection from unfair termination of employment (to the extent practical) or from legal action by the insurer or its owners as a result of fulfilling his or her statutory duties."

Another alternative may be to require the actuary to report adverse developments to the company's Board of Directors, or to pension fund trustees, who, after having been given an opportunity to address those developments, might be required to report to the supervisory authority if the adverse developments were not corrected. This approach recognizes the oversight responsibilities of the Board of Directors or the trustees while maintaining a reporting responsibility for the actuary.

Standard-setting

The U.K. profession is best able to address the development of standards that are specific to U.K. practice. However, the IAA is working to supplement nation-specific standards of practice with international guidance on practice that is not nation-specific, for example, practice under International Financial Reporting Standards. Similarly, in response to calls from the International Social Security Association and the International Labour Organization for guidelines for actuarial practice in relation to social security programs, the IAA has developed such guidelines for actuaries involved in this practice area. These examples demonstrate that the IAA appreciates the importance of providing practising actuaries with professional standards and other technical guidance that take appropriate account of the public interest.

In its development of guidelines for insurer financial reporting, the IAA has maintained a close relationship with the IASB and obtained their input. We would observe however that we are not aware of many instances where input from outside the profession is sought in standards setting by member associations. The IAA has not formulated an official position on this matter yet.

The IAA recently updated its due process to adopt practice guidelines and standards with the view to speed up, and at times fast-track the process in cases of urgency.

Openness, Peer Review, and Audit of Actuarial Work

The IAA cannot overemphasize the importance of actuaries having strong communication skills, if only because of the unusual complexity and financial implications of most actuarial work. It can be a challenge for the practising actuary to strike the appropriate balance between providing relevant and informative disclosure without oversimplifying the technical complexities of the work. The IAA seeks to provide a forum for leaders of the profession from around the world to meet together and share best practices to encourage actuaries actively to develop their communications skills.

Our comments on peer review can be found in the above section titled ***The Scope of the Actuarial Role***.

Monitoring, Complaints and Disciplinary Schemes

As we have stated above, rigorous enforcement is essential to the credibility of any code of conduct. Discipline practices within the actuarial profession vary among the membership organizations, but the IAA considers the existence of an effective discipline process within an actuarial association sufficiently important to require it as a precondition of full IAA membership.

Regulators and auditors separately monitor the work of actuaries. We believe that it is appropriate and advisable for them to use actuarial advisors to support their monitoring activities.

On the question of whether the discipline should be undertaken by the regulators, we observe that the regulator, who might be a complainant or an accuser in a case, might find itself in a position of being “judge and party” if the discipline was undertaken by the same regulator. We are aware that some regulators would rather not be involved in the professional discipline process and would prefer to leave it to the profession in order not to impede future relations between the regulators and the actuarial practitioners.

On the question of whether the regulators make appropriate use of actuarial expertise to supervise the work of actuaries, the IAA public response to the IAIS referred to earlier reaffirms the IAA’s unequivocal support for the use of actuarial expertise by regulators.

Chapter 3 — Roles and Responsibilities of the Government Actuary's Department

Different employers of actuarial services have different reasons for using in-house actuarial services versus using external actuarial services, as we illustrated in the earlier section titled ***The Market for Actuarial Services***. The variety of reasons is even greater for governments than for private sector employers. Different countries have different arrangements in place to provide their governments and public sectors with objective actuarial advice and support. The Government Actuary's Department approach used in the UK is one model that, with some variations, is also used in other countries.

Whatever the approach, the IAA believes that it is important that governments be aware of the availability of professional advice and actively seek relevant actuarial input on policy issues and decisions, particularly in relation to insurance, pensions, social security and other areas where there is a need for advice on the management of financial risks resulting from future events.

Actuaries employed by governments often participate actively in professional organizations and thereby enhance the individual and collective development of the profession. The IAA itself has benefited from their participation.

Conclusion

The IAA appreciates this opportunity to contribute to the *Morris Review*. Please do not hesitate to call upon us for any additional information or assistance by contacting the Chairperson of the IAA's Professionalism Committee, Jean-Louis Massé, through the IAA Secretariat (secretariat@actuaries.org).

September 2004

APPENDIX

Conclusions of the IAIS in *The Use of Actuaries as Part of a Supervisory Model*

1. The application of actuarial expertise is a key component in the operation of insurers, insurance markets, and insurance supervisory authorities.
2. The roles of actuaries and external auditors, and relationships between them, are enhanced by a clear definition of their respective responsibilities.
3. The decision on the use of a responsible actuary in an official capacity as part of a supervisory model should give due regard to the need to ensure effective supervisory oversight and management accountability.
4. Where a responsible actuary model is adopted, the actuary should have clearly-defined tasks and responsibilities, as well as rights and obligations under the law. These tasks and responsibilities can change over time.
5. In the event that the use of a responsible actuary in the supervisory model is not adopted, then the supervisor has to have access to sufficient actuarial resources to perform detailed and quantitative reviews, as required.
6. The decision to adopt an official role for actuaries should take account of the availability of suitably qualified actuaries and the extent to which the profession is well organised.
7. Where the use of a responsible actuary model is adopted, the supervisor should not simply accept the work of the actuary without further scrutiny, but should have access to actuarial resources to review and interpret the advice of the responsible actuary.
8. The appointment of a particular responsible actuary should be subject to supervisory review and the supervisor should have the capacity to have an unsatisfactory appointee removed from the position.
9. Where a responsible actuary model is in place, there should be some criteria regarding who may qualify for appointment as a responsible actuary. These criteria may be based on qualifications, professional experience, and membership in a professional association or a combination of these elements. In addition, factors such as the personal and professional ability to function in the position should be considered.
10. Where a responsible actuary model is in place, consideration should be given to potential conflict of interest situations. It is preferable that the person appointed as a responsible actuary not be permitted to hold this position at the same time as being a chief executive officer.

11. Where a responsible actuary model is in place, there should be some avenue available for a responsible actuary to be removed at the initiative of either the insurer or the supervisor. Removal may be required where the actuary fails to perform adequately the required functions and duties or does not meet eligibility or fit and proper criteria. The supervisor should be promptly informed in cases where the insurer removes the responsible actuary.
12. A supervisory model that makes use of an actuary should take into account the extent to which the actuary is subject to professional standards of practice, qualification standards, and obligations on professional conduct.
13. The nature of the professional associations should influence the supervisor's dependence on a responsible actuary. For instance, where professional codes of conduct, standards of practice and disciplinary procedures are in place, the supervisor may place greater reliance on these persons. The professional associations can also provide a forum for development of technical aspects of the actuarial role. In any event, the supervisor has a role to ensure that practices are adequate and subject to review.
14. Where a responsible actuary model is in place, the role of the actuary should be defined in terms of the types of advice that the actuary is required to give the insurer, for various lines of business. The actuary should provide advice on the level of technical provisions. Consideration should also be given to other areas where advice of the actuary will be valuable, such as: levels of premiums; adequacy of risk assessment; reinsurance arrangements; investment policies; statistical inference; and stress testing of the future financial condition of the insurer.
15. Where a responsible actuary model is in place, there should be a requirement for the actuary to prepare a written report on the technical provisions and for that report to be provided to the insurer and made available to the supervisor. Consideration should also be given to requiring the actuary to prepare reports on other areas of advice.
16. Where reports or advice on particular aspects are provided, the supervisor should have the ability to act independently of the actuary's advice.
17. Where a responsible actuary model is in place, consideration should be given to whether whistle-blowing requirements should be imposed on actuaries. The existence of such obligations may both increase the confidence of the supervisor and provide a direct link between supervisors and actuaries. In fulfilling such obligations, the actuary should have protection under the law.

APPENDIX

Professionalism Committee of the International Actuarial Association

Jean-Louis Massé
Simon Van Vuure

Chairperson
Vice-Chairperson

Members

Andris Barlots	Latvijas Aktuaru Asociacija (Latvia)
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APPENDIX

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Slovensko Aktuarsko Društvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
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Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of the Republic of China (Taiwan)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)